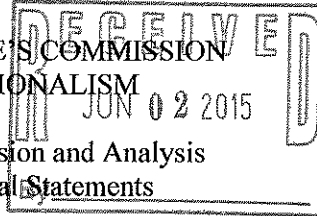


THE CHIEF JUSTICE'S COMMISSION  
ON PROFESSIONALISM



Management Discussion and Analysis  
Audited Financial Statements

December 31, 2014 and 2013

## Management Discussion and Analysis

## **Management Discussion and Analysis**

This section of the Chief Justice's Commission on Professionalism's ("the Commission") financial report represents our discussion and analysis of the financial performance of the Commission for the years ended December 31, 2014, 2013 and 2012. This information should be read in conjunction with the audited financial statements.

### **Financial Highlights**

- The Commission's assets exceeded its liabilities by \$361,934 (fund equity) for the year ended December 31, 2014. This was an increase from 2013 and 2012 when assets exceeded liabilities by \$321,308 and \$296,490, respectively.
- The Commission had nominal liabilities of \$982 at the end of 2014. The Commission had similar outstanding liabilities of \$522 and \$90 in 2013 and 2012, respectively.

### **Overview of the Financial Statements**

The audited financial statements of the Chief Justice's Commission on Professionalism consist of three components. They are as follows:

- Independent Auditors' Report
- Management Discussion and Analysis (required supplementary information)
- Basic Financial Statements and Disclosures

The Chief Justice's Commission on Professionalism was created by Order of the Supreme Court of North Carolina on September 22, 1998. The Commission is charged with enhancing professionalism among North Carolina lawyers. In order to carry out its charge, the Commission entered into an agreement with the North Carolina Administrative Office of the Courts (AOC), which is an agency of the Judicial Branch of the Government of the State of North Carolina, to provide personnel, office space, equipment, supplies and technology. Though the Commission is not technically a part of the North Carolina State Bar, the State Bar collects the Commission's revenue and handles its accounting. The financial activities of the Commission are classified and accounted for as an Enterprise Fund, whereby the Commission uses the economic resources measurement focus and the accrual basis of accounting.

### ***The basic financial statements***

The basic financial statements include the balance sheet, the statement of revenues, expenses and changes in fund equity and the statement of cash flows. The balance sheet includes all of the Commission's assets and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due dates for liabilities. Liquidity and financial flexibility can be evaluated using the information on this statement. The statement of revenues, expenses and changes in fund equity summarizes the

Commission's revenues and expenses for the current year. The statement of cash flows helps readers to assess the enterprise's ability to generate positive future net cash flows and to meet its obligations. It also helps readers understand the effects on the enterprise's financial position of both its cash and noncash investing and financing transactions during the period.

### *Notes to the financial statements*

The notes to the financial statements provide information for a fuller understanding of the Commission. They immediately follow the basic financial statements.

### **Financial Analysis of the Commission**

Since financial information is accumulated on a consistent basis year to year, changes in fund equity can be analyzed to determine the changing financial position of the Commission as a whole.

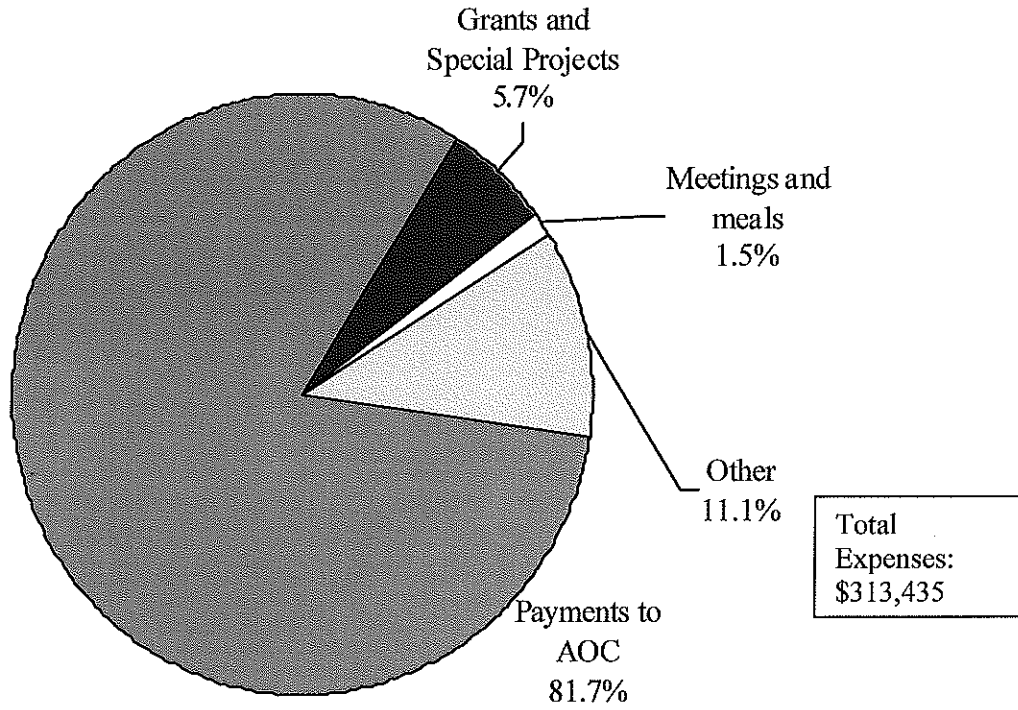
The Commission's fund equity at December 31, 2014 was \$361,934. This was a \$40,626 increase over 2013's and a \$65,444 increase over 2012's fund equity of \$296,490. The following table provides a summary of the Commission's fund equity as of December 31:

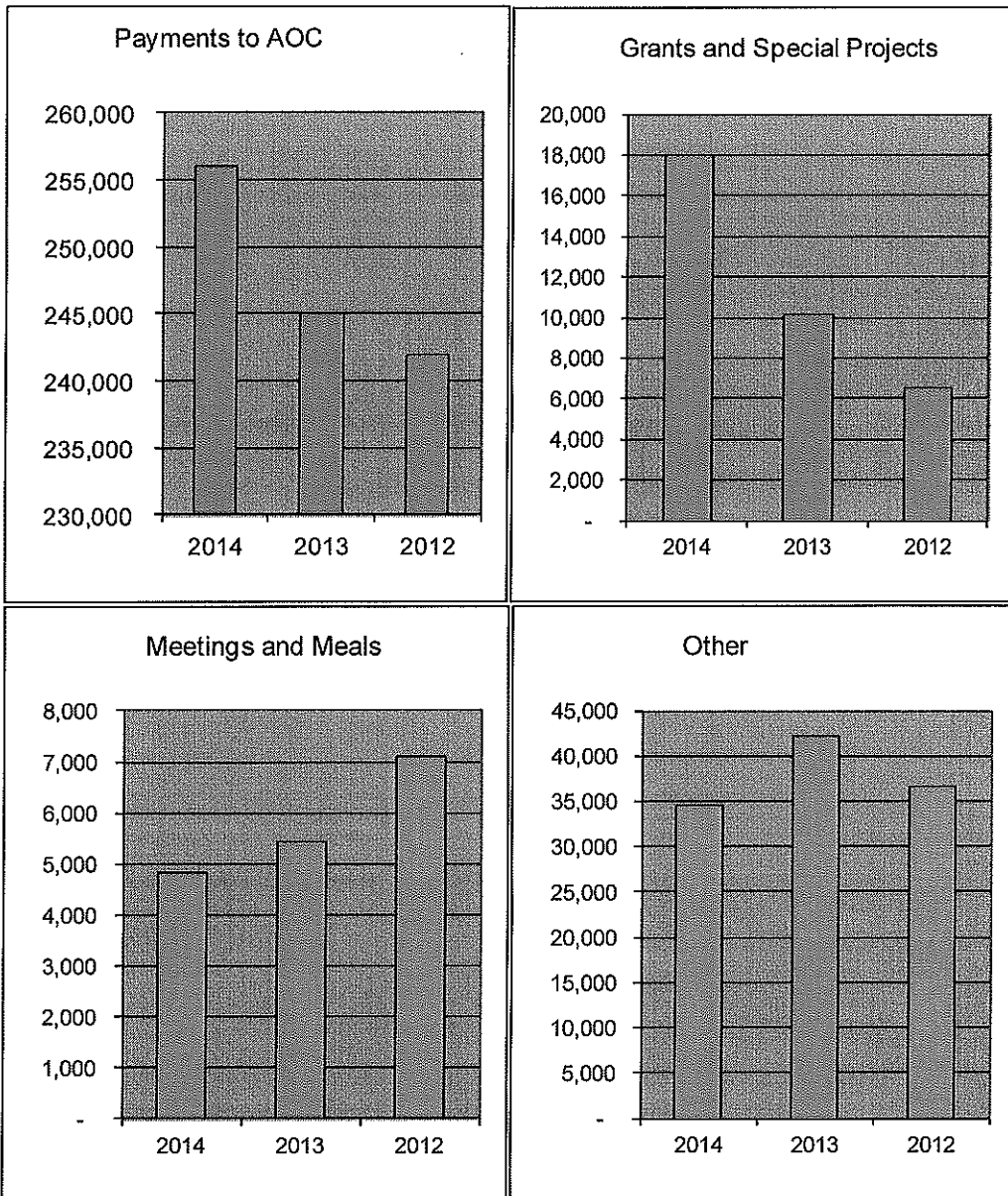
	2014	2013	2012	Current Year Amount Change	Current Year % Change
Current and other assets	\$362,916	\$321,830	\$296,580	\$41,086	12.77%
Total assets	\$362,916	\$321,830	\$296,580	\$41,086	12.77%
Current liabilities	\$982	\$522	\$90	\$460	88.12%
Total liabilities	\$982	\$522	\$90	\$460	88.12%
Fund Equity	\$361,934	\$321,308	\$296,490	\$40,626	12.64%

The following table provides a summary of the Commission's changes in revenues and expenses for the years ended December 31:

	2014	2013	2012	Current Year Amount Change	Current Year % Change
Revenues	\$354,055	\$327,547	\$328,321	\$26,508	8.09%
Operating expenses	\$313,435	\$302,761	\$292,266	\$10,674	3.53%
Operating income	\$40,620	\$24,786	\$36,055	\$15,834	63.88%
Interest income	\$6	\$32	\$63	(\$26)	-81.25%
Net income	\$40,626	\$24,818	\$36,118	\$15,808	63.70%

## 2014 OPERATING EXPENSES





As shown in the tables above, the primary revenue source for the Commission is a fee levied in conjunction with lawyers' attendance at approved continuing legal education activities. Each active member of the State Bar is required to take 12 hours of Continuing Legal Education credit each calendar year. For each hour of credit, either the sponsor or the individual attendee is assessed \$3.00. \$1.00 of the \$3.00 assessment funds the Commission. In 2014 these fees resulted in an increase over 2013 revenues. In 2013, revenues slightly decreased over 2012 fees. This appeared to be a function of the slowing of the economy during that year. In 2014, the economy has picked up and attorneys returned to taking more than just the statutory required continuing education and the fees collected returned to more expected levels.

### **Budgetary Highlights**

The Commission uses budgetary tools internally to measure and control revenues and expenses. Budget to actual variances are examined on a quarterly basis. Significant variances are reviewed periodically by the Commission.

### **Capital Assets**

The Commission had fully-depreciated capital assets having a historical cost of \$5,898 as of December 31, 2014.

### **Long Term Debt**

The Commission did not have long term debt obligations outstanding as of December 31, 2014.

### **Other Factors**

The Commission does not expect to incur any significant expenses in 2015 that will affect its overall financial position. It appears that the Commission's primary revenue stream should be adequate for the next few years.

**Audited Financial Statements**





Geoffrey E. Wiggins  
Jeffrey S. Romeo  
Angela B. Goodwin  
J. Kelly Lanier  
Joseph L. Hill, Jr.

### Independent Auditors' Report

The Board of Trustees  
The Chief Justice's Commission on Professionalism

#### Report on the Financial Statements

We have audited the accompanying financial statements of The Chief Justice's Commission on Professionalism which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in fund equity, and cash flows for the years then ended, and the related notes to the financial statements.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chief Justice's Commission on Professionalism as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Independent Auditors' Report, Continued

The Board of Trustees  
The Chief Justice's Commission on Professionalism

### Report on Required Supplementary Information

The Governmental Accounting Standards Board requires that Management's Discussion and Analysis (on the preceding pages) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Romeo, Wiggins & Company, L.L.P.*

Raleigh, North Carolina  
April 16, 2015

THE CHIEF JUSTICE'S COMMISSION  
ON PROFESSIONALISM

Balance Sheets

December 31, 2014 and 2013

	2014	2013
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 238,271	221,068
Fees receivable, net	124,645	100,762
Total current assets	362,916	321,830
Property and equipment, net	-	-
	\$ 362,916	321,830
<u>Liabilities and Fund Equity</u>		
Current liabilities:		
Accounts payable	\$ 982	409
Due to North Carolina State Bar	-	113
Total current liabilities	982	522
Fund equity-retained earnings	361,934	321,308
	\$ 362,916	321,830

See accompanying notes to financial statements.

THE CHIEF JUSTICE'S COMMISSION  
ON PROFESSIONALISM

Statements of Revenues, Expenses and Changes in Fund Equity

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues - fees	\$ <u>354,055</u>	<u>327,547</u>
Operating expenses:		
Payments to Administrative Office of the Courts	256,000	245,000
Staff travel	13,595	20,483
Insurance	7,537	5,783
Services	10,965	13,189
Grants and special projects	18,000	10,145
Meetings and meals	4,822	5,438
Payments to CLE	6	31
Dues and subscriptions	1,636	1,626
Office supplies	<u>874</u>	<u>1,066</u>
Total operating expenses	<u>313,435</u>	<u>302,761</u>
Operating income	40,620	24,786
Nonoperating income - interest income	<u>6</u>	<u>32</u>
Net income	40,626	24,818
Fund equity, beginning of year	<u>321,308</u>	<u>296,490</u>
Fund equity, end of year	<u>\$ <u>361,934</u></u>	<u><u>321,308</u></u>

See accompanying notes to financial statements.

THE CHIEF JUSTICE'S COMMISSION  
ON PROFESSIONALISM

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating activities:		
Cash receipts from fees	\$ 330,172	327,312
Payments to Administrative Office of the Courts	(256,000)	(245,000)
Payments to suppliers	(56,975)	(57,329)
Net cash provided by operating activities	<u>17,197</u>	<u>24,983</u>
Investing activities-interest received	<u>6</u>	<u>32</u>
Net change in cash and cash equivalents	17,203	25,015
Cash and cash equivalents, beginning of year	<u>221,068</u>	<u>196,053</u>
Cash and cash equivalents, end of year	<u>\$ 238,271</u>	<u>221,068</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 40,620	24,786
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	-	-
Changes in operating assets and liabilities:		
Fees receivable	(23,883)	(235)
Accounts payable	460	432
Net cash provided by operating activities	<u>\$ 17,197</u>	<u>24,983</u>

See accompanying notes to financial statements.

THE CHIEF JUSTICE'S COMMISSION  
ON PROFESSIONALISM

Notes to Financial Statements

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies

The Organization

The Chief Justice's Commission on Professionalism ("the Commission") was created by Order of the Supreme Court of North Carolina entered on September 22, 1998. The Commission is charged with enhancing professionalism among North Carolina lawyers.

In order to carry out its charge, the Commission entered into an agreement with the North Carolina Administrative Office of the Courts ("AOC"), which is an agency of the Judicial Branch of Government of the State of North Carolina. Under this agreement, the Commission contracts with AOC to provide personnel, office space, equipment, supplies and technology. Payments to AOC totaled \$256,000 in 2014 and \$245,000 in 2013.

Basis of Accounting

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), and in accordance with Statewide accounting policies established by the Office of the State Controller. Because the Commission is not a separate legal entity (is a part of the State primary government), this financial report does not include certain other supplementary information.

THE CHIEF JUSTICE'S COMMISSION  
ON PROFESSIONALISM

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

The financial activities of the Commission, as presented in the accompanying financial statements, are classified and accounted for as an Enterprise Fund, whereby the Commission uses the economic resources measurement focus and the accrual basis of accounting. All acquisitions of fixed assets in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized. Proprietary activities apply all applicable GASB pronouncements.

Property and Equipment

Property and equipment at December 31, 2014 and 2013, consist of fully-depreciated software and furniture and equipment having a historical cost of \$5,898.

Cash Equivalents

The Commission considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
BB&T money market account	\$ <u>238,271</u>	<u>221,068</u>
	\$ <u>238,271</u>	<u>221,068</u>

Branch Banking & Trust (BB&T) has pledged securities to secure balances, if any, in excess of federally insured limits. Deposits with the North Carolina State Treasurer, if any, are insured by the State of North Carolina.

Income Taxes

The Commission is a governmental agency whose net income is exempt from federal income taxes under the Internal Revenue Code.

THE CHIEF JUSTICE'S COMMISSION  
ON PROFESSIONALISM

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition and Fees Receivable

Revenue consists primarily of fees from attorneys or providers for each approved credit hour of continuing education. This revenue is recognized in the period in which the related programs are held. The North Carolina State Bar Board of Continuing Legal Education ("CLE") assesses \$3.00 per credit hour of which \$1.00 is remitted to the Commission.

Fees receivable are estimated based on attendee fees billed in March after year end for the previous year. The Commission provides an allowance for uncollectible accounts based on management's review of all outstanding receivables. The allowance totaled \$2,000 as of December 31, 2014 and 2013.

Unemployment Compensation

The Commission recognizes its self-insured obligation for unemployment compensation in the period of the related employee termination.

Fair Value of Financial Instruments

The carrying values of cash equivalents, receivables and accounts payable approximate the respective fair values based on the short maturities of those financial instruments.

Subsequent Events

Management has evaluated subsequent events through April 16, 2015, the date on which financial statements were available for issue.



THE CHIEF JUSTICE'S COMMISSION  
ON PROFESSIONALISM

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(2) Related Party Transactions

Continuing Legal Education (CLE) provides various support services to the Commission including staffing, use of CLE's computer, and other indirect services. CLE charges the Commission for these services equal to the amount of interest earned on the Commission's investments. This totaled \$6 and \$31 in 2014 and 2013, respectively.